

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 002231

SIPDIS

USTR FOR SCRONIN, KLEZNY
DEPT FOR E:ALARSON; WHA:CSTRUBLE, SPINKHAM; EB:BMANOGUE
NSC FOR JOANNA WALLACE
USDA FOR JBPENN

E.O. 12958: DECL: 07/16/2013

TAGS: [ETRD](#) [BR](#) [FTAA](#)

SUBJECT: BRAZIL'S ARSLANIAN: FTAA COMPROMISE POSSIBLE

Classified By: Janice Fair, Economic Officer for Reason Section 1.5 (b)
and (d)

1. (C) Summary. In an informal discussion with econoff on July 13, Regis Arslanian, the GOB's new director of FTAA and Mercosul-EU negotiations, acknowledged that Mercosul was disappointed with the reaction it received during the San Salvador TNC meeting to its proposal for restructuring the FTAA negotiations and suggested that Brazil could accept a compromise reformulation with the United States. According to Arslanian, a bilateral structure for market access discussions is a key element for the GOB. End Summary.

2. (C) On July 13, while traveling back to Brasilia from the FTAA Trade Negotiating Committee (TNC) meeting in San Salvador (July 8-11), econoff discussed Mercosul's take on the meeting with Regis Percy Arslanian. Arslanian has been advisor to Itamaraty Secretary-General Pinheiro Guimaraes, but told Econoff that he has been chosen to replace Ambassador Carlos Simas Magalhaes as Head of the International Negotiations Department (FTAA and Mercosul-EU negotiations) under Ambassador Luiz Filipe Macedo Soares, who is Under Secretary for South America and Brazil's lead FTAA negotiator at the Vice-Minister level. Earlier, econoff was told by Tovar da Silva Nunes, the GOB's FTAA Coordinator, that Simas had been sacked on July 4 for not being in-sync with Itamaraty FTAA policy directives.

3. (C) According to Arslanian, Mercosul was extremely disappointed by the reaction it received at the TNC meeting to its three-track proposal for restructuring the FTAA. Roughly speaking, the three tracks refer to: Track 1- bilateral market access negotiations (industrial and agricultural goods, services, and investment) carried out under the FTAA umbrella; Track 2- minimal rules to support market access such as dispute settlement, rules of origin, civil society, institutional issues, Hemispheric Cooperation Program, etc.; and Track 3 - rules for services and investment, intellectual property, competition policy, market access and rules for government procurement, domestic support, and trade remedies, all of which would be considered only in the WTO.

4. (C) Mercosul presented its proposal in the TNC plenary, but the bulk of discussion took place in an informal session during which most countries expressed concern with, and to a certain extent criticism of, Mercosul's intention to reduce the scope of the FTAA. Arslanian said that the United States and other countries did not fully appreciate the intense domestic political and social pressure the GOB is under, and reiterated that it would be impossible for Brazil/Mercosul to complete the FTAA negotiations as currently structured.

5. (C) While other countries have suggested that a comprehensive FTAA in both market access and rules is necessary to foster economic integration and prosperity in the region by encouraging strategic hemispheric partnerships and attracting foreign direct investment, Brazil sees its strategic needs differently. Arslanian emphasized two points: the importance of the U.S. market for Brazilian goods; and the importance of bilateral market access negotiations as envisioned in Mercosul's three-track proposal.

6. (C) Arslanian stressed the GOB's interest in negotiating access to the U.S. market within the FTAA. However, he registered disbelief that the U.S. is serious about giving duty-free treatment to certain sensitive products, citing orange juice and steel, in particular. Econoff rebutted that in the initial U.S. goods offer every tariff item was within one of the four product baskets, each of which is slated to go to zero-duty at some time, but pointed out that with Mercosul's proposed wholesale removal of a number of issues of interest to the United States from the FTAA, the U.S. would undoubtedly have difficulty justifying such a comprehensive market opening. In response, Arslanian said Mercosul would be willing to negotiate market access in financial services and telecommunications with the United States as trade-offs. Pressed on whether Mercosul would really be offering anything new in these areas, he answered emphatically in the affirmative.

17. (C) In explaining Brazil's rationale for seeking a bilateral negotiating structure, Arslanian said that Brazil believes other countries in the region (Central Americans, etc.) are willing to give away much more than Brazil is in market access for services and investment to gain an opening of the U.S. goods market. He reiterated several times that Brazil will not "level" its interests to those of other countries and would not accept a structure that would force Brazil to make concessions based on other countries' willingness to "give away the store." Echoing comments made by Mercosul's Uruguayan lead during the TNC, Arslanian also said that a bilateral process could focus the negotiation more specifically on the interests of the parties involved and make it easier to identify for political leaders and society at large the trade-offs that are made to reach an agreement. He claimed that Mercosul will not submit any offers in services, investment and government procurement until a bilateral negotiating structure is approved.

18. (C) Arslanian asked why the U.S. delegation to the TNC did not discuss a baseline agreement approach that he believed the USG had contemplated. Econoff responded simply that the USG did not have an official proposal to put forward. Arslanian bemoaned the lack of such a discussion, opining that between the three-track proposal and a baseline agreement approach, a compromise could probably be reached, as long as it includes a bilateral market access structure. He intimidated that Mercosul could agree to include government procurement market access under the FTAA and that the negotiating forum for rules in services and investment, and IPR could be revisited. Arslanian also wondered aloud about the possibility of a two-stage process, with deepening (read as rules) coming in stage two, but was silent when asked by econoff what guarantee the U.S. would have that Brazil would undertake stage two negotiations if it obtained the market access for goods that it wanted in stage one.

19. (C) Comment: Arslanian seemed eager to encourage a dialog with the United States to develop a vision for the FTAA that would satisfy both countries' needs. Given his past position in the Itamaraty Secretary-General's Office and his new position specifically overseeing the FTAA negotiations, we are inclined to view his statements on GOB priorities and possible flexibilities as credible. See septel for Mission's overview and analysis of factors affecting the GOB's latest formulation of its FTAA policy. End Comment.
HRINAK